

ZION RECOVERY SERVICES, INC.

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2015 AND 2014

ZION RECOVERY SERVICES, INC.

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ZION RECOVERY SERVICES, INC.
Officials
June 30, 2015

Board of Directors:

Jim Richardson, Chairperson

Steve Ratcliff, Vice-Chairperson

Mark Wedemeyer, Secretary-Treasurer

Matt Wedemeyer

Brad Golightly

Cara Marker Morgan

Address

Shenandoah, Iowa

Red Oak, Iowa

Atlantic, Iowa

Casey, Iowa

Perry, Iowa

Hamburg, Iowa

Program Administrator:

Laurie Cooley

Anita, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying balance sheets of Zion Recovery Services, Inc. (a nonprofit organization) as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
Zion Recovery Services, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zion Recovery Services, Inc. as of June 30, 2015 and 2014, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note J to the financial statements, Zion Recovery Services, Inc. adopted new accounting guidance related to the Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment to FASB Statements No. 87, 88, 106 and 132(R)*. Our opinion is not modified with respect to this matter.

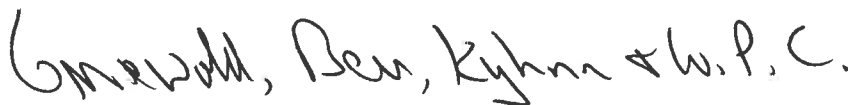
Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2015 on our consideration of Zion Recovery Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Zion Recovery Services, Inc.'s internal control over financial reporting and compliance.

 Ben Kuhn & W.P.C.

Atlantic, Iowa
August 31, 2015

ZION RECOVERY SERVICES, INC.
Balance Sheets
June 30,

ASSETS

	<u>2015</u>	<u>Not Restated 2014</u>
Current Assets:		
Cash and cash equivalents	\$ 565,943	\$ 311,649
Certificates of deposit	168,142	275,501
Accounts receivable, less allowance for doubtful accounts (\$38,000 in 2015 and \$42,000 in 2014)	104,437	111,835
Grant receivables	13,944	17,005
Prepaid expense	<u>24,612</u>	<u>17,707</u>
Total current assets	877,078	733,697
Property and Equipment, Net	6,477	5,689
Other Asset:		
Investment in IBHN	<u>20,000</u>	<u>20,000</u>
Total assets	<u>\$ 903,555</u>	<u>\$ 759,386</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 30,953	\$ 7,600
Accrued employee compensation	61,423	51,905
Payroll taxes withheld and accrued	<u>4,699</u>	<u>4,341</u>
Total current liabilities	97,075	63,846
Long-Term Liability:		
Net pension liability	<u>456,448</u>	<u>--</u>
Total liabilities	553,523	63,845
Net Assets:		
Unrestricted	<u>350,032</u>	<u>695,540</u>
Total liabilities and net assets	<u>\$ 903,555</u>	<u>\$ 759,386</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Support and Revenue:		
Support:		
Iowa Department of Public Health -		
Comprehensive Treatment:		
Iowa Managed Substance Abuse		
Care Plan - Non-Medicaid	\$ 876,992	\$ 907,327
Access to recovery	2,554	33,533
Prevention services	193,763	199,211
Total support	<u>1,073,309</u>	<u>1,140,071</u>
Revenue:		
Client fees, net	267,851	351,945
Medicaid fees	361,964	273,296
Interest income	1,083	1,046
Other revenues	40,679	59,790
Total revenue	<u>671,577</u>	<u>686,077</u>
Total Support and Revenue	1,744,886	1,826,148
Expenses:		
Salaries and wages	942,026	921,110
Employee benefits	253,846	295,006
Advertising and promotion	5,987	6,813
Provision for depreciation	1,939	3,136
Food costs	36,852	30,156
Insurance	12,155	13,731
Miscellaneous	11,076	11,765
Professional services	38,151	21,804
Rent	107,184	100,428
Repairs and maintenance	25,920	32,436
Supplies and other expense	76,180	89,914
Telephone	20,753	21,597
Training costs	10,188	8,492
Travel	38,359	38,082
Utilities	5,546	6,097
Total expenses	<u>1,586,162</u>	<u>1,600,567</u>
Operating Income	158,724	225,581
Loss on Disposal of Assets	<u>(1,500)</u>	<u>--</u>
Increase in Unrestricted Net Assets Before Other Comprehensive Income	157,224	225,581
Other Comprehensive Income:		
Net change in unrecognized pension costs	<u>191,660</u>	<u>--</u>
Increase in Unrestricted Net Assets	348,884	225,581
Net Assets at Beginning of Year, as Restated (Note J)	<u>1,148</u>	<u>469,959</u>
Net Assets at End of Year	<u>\$ 350,032</u>	<u>\$ 695,540</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Cash Flows
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Cash flows from operating activities:		
Cash received from clients, third-party payors, and court system	\$ 677,892	\$ 653,109
Contract funding received	1,076,370	1,187,672
Cash paid to suppliers and employees	(1,604,183)	(1,589,069)
Interest received	<u>1,083</u>	<u>1,046</u>
Net cash provided by operating activities	151,162	252,758
Cash flows from investing activities:		
Capital expenditures	(4,227)	(982)
Redemption of certificates of deposit	108,052	--
Purchase of certificates of deposit	(693)	(937)
Purchase of investment	<u>--</u>	<u>(20,000)</u>
Net cash provided by (used in) investing activities	<u>103,132</u>	<u>(21,919)</u>
Net increase in cash and cash equivalents	254,294	230,839
Cash and cash equivalents at beginning of year	<u>311,649</u>	<u>80,810</u>
Cash and cash equivalents at end of year	<u>\$ 565,943</u>	<u>\$ 311,649</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 348,884	\$ 225,581
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for depreciation	1,939	3,136
Loss on disposal of assets	1,500	--
Changes in assets and liabilities		
Accounts receivable	10,459	15,679
Prepaid expense	(6,905)	(4,978)
Accounts payable	23,353	(10,222)
Accrued employee compensation	9,518	26,952
Payroll taxes withheld and accrued	358	(3,390)
Net pension liability	<u>(237,944)</u>	<u>--</u>
Total adjustments	<u>(197,722)</u>	<u>27,177</u>
Net cash provided by operating activities	<u>\$ 151,162</u>	<u>\$ 252,758</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

Zion Recovery Services, Inc. was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Clarinda, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term. The Agency is a not-for-profit corporation chartered under the laws of the State of Iowa and is exempt from income tax under Section 501 of the Internal Revenue Code. The Agency is required to file a Form 990 (which is subject to audit by the Internal Revenue Service) annually, to maintain its exempt status. The Agency's open audit periods are for years ended June 30, 2012 through 2015.

2. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

3. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by laws.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of leasehold improvements range from five to fifteen years.

6. Unrestricted Revenues and Support

- a. Client fees are recorded net of adjustments for uncollectible accounts. The adjustments for uncollectible accounts are \$119,531 for 2015 and \$123,563 for 2014.
- b. The managed care contract revenues are recorded monthly as the payments are received. The contract requirements include minimum units of service that must be provided to earn the contract revenue. The Agency may be required to pay back a portion of the contract revenue if the minimum units of service are not met.

7. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

NOTE B - FAIR VALUE MEASUREMENTS

The Agency's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Agency, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE B - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The investment in Iowa Behavioral Health Network (IBHN) will result in the Agency having access to a credentialing and billing and collections service. The investment in IBHN is not actively traded and significant other observable inputs are not available. The fair value of the investment in IBHN is based on book value. Management believes this value approximates current fair value.

The following tables set forth, by level within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2015:

		Fair Value Measurements at Reporting Date Using: Significant Unobservable Inputs (Level 3)
<u>June 30, 2015</u>	<u>Fair Value</u>	
Investment in IBHN	\$ 20,000	\$ 20,000
<u>June 30, 2014</u>		
Investment in IBHN	\$ 20,000	\$ 20,000

The following tables reconcile the beginning and ending balances of fair value measurements for the Agency's level 3 assets using unobservable inputs for the years ended June 30, 2015:

<u>June 30, 2015</u>	
Beginning balance	\$ 20,000
Investment in IBHN	<u>--</u>
Ending balance	<u>\$ 20,000</u>
<u>June 30, 2014</u>	
Beginning balance	\$ --
Investment in IBHN	<u>20,000</u>
Ending balance	<u>\$ 20,000</u>

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE C - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Magellan Behavioral Health, Inc. The Agency received approximately 50% of its total support and revenue through this contract for the year ended June 30, 2015 (50% for 2014). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2016 although the payment amount has not yet been determined.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Leasehold Improvements	\$ 995	\$ 3,818
Equipment	<u>18,787</u>	<u>70,445</u>
	19,782	74,263
Less Accumulated Depreciation	<u>13,305</u>	<u>68,574</u>
	<u>\$ 6,477</u>	<u>\$ 5,689</u>

NOTE E - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	<u>2015</u>	<u>2014</u>
Outpatient and Residential Services	\$ 1,292,984	\$ 1,292,443
Management and General	<u>293,178</u>	<u>308,124</u>
	<u>\$ 1,586,162</u>	<u>\$ 1,600,567</u>

NOTE F - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are residents of the six county service area. The mix of receivables from patients and third-party payors at June 30, 2015 and 2014, was as follows:

	<u>2015</u>	<u>2014</u>
Medicaid	24%	18%
Client accounts	<u>76</u>	<u>82</u>
	<u>100%</u>	<u>100%</u>

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided by general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Agency contributed 8.93% for a total rate of 14.88%.

Net Pension Liabilities, Pension Expense, and Net Changes in Unrecognized Pension Costs - At June 30, 2015, the Agency reported a liability of \$456,448 for its proportionate share of the net pension liability. The Agency net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date, less the Agency's contributions to IPERS for the year ended June 30, 2015 of \$83,047. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Agency's proportion was 0.013330%, which was a decrease of 0.000338% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Agency recognized pension expense of \$36,763. At June 30, 2015, the Agency reported a net change in recognized pension costs:

Differences between expected and actual experience	\$(5,863)
Changes of assumptions	(23,809)
Net difference between projected and actual earnings on pension plan investments	205,748
Changes in proportion and differences between Agency contributions and proportionate share of contributions	15,584
	<u>\$ 191,660</u>

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

Amounts reported as part of the net change in unrecognized pension costs will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ 47,915
2017	47,915
2018	47,915
2019	<u>47,915</u>
	<u>\$ 191,660</u>

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00%
Salary increases (effective June 30, 2014)	4.00%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Agency's proportionate share of the net pension liability	\$ 1,019,360	\$ 456,448	\$ 134,439

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the Agency reported payables to the defined benefit pension plan of \$ - 0 - for legally required employer contributions and \$ - 0 - for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE H - LEASE OBLIGATIONS

The Agency has entered into agreements to lease office space under noncancellable operating leases with various lease terms. Lease payments under these agreements for the year ended June 30, 2015 were \$33,504 (\$34,371 in 2014). Future minimum payments under the agreements for the years subsequent to June 30, 2015 are as follows:

2016	\$	70,935
2017		23,801
2018		<u>13,255</u>
	\$	<u>107,991</u>

The Agency also has entered into agreements to lease their residential care facility and other office space from various property owners on a month to month basis. Total lease expense associated with these leases was \$73,680 in 2015 (\$66,057 in 2014).

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2015 and 2014

NOTE I - CONTINGENCIES

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Off-Balance Sheet Risk

The Agency maintains its deposits at several banks in the area. At various times throughout the year and at year end, the deposits in one of the banks exceeded the FDIC insured deposits limit for one entity (by approximately \$340,200 for the bank at year end). Management of the Agency has received no indication of any potential viability problems with the bank by the date of this report.

Subsequent Events

The Agency has evaluated all subsequent events through August 31, 2015, the date the financial statements were available to be issued.

NOTE J - ACCOUNTING CHANGE/RESTATEMENT

Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans - an Amendment to FASB Statements No. 87, 88, 106 and 132 (R)*, was implemented during fiscal year 2015. Beginning net assets were restated to retroactively report the beginning net pension liability, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 695,540
Net pension liability at June 30, 2014	<u>(694,392)</u>
Net position July 1, 2014, as restated	<u>\$ 1,148</u>

* * *

SUPPLEMENTARY INFORMATION

ZION RECOVERY SERVICES, INC.
Schedule of Expenditures by Activity
Year ended June 30,

	2015					2014
	ATR & DUI Services	Outpatient Services	Residential Services	Prevention Services	Total	Total
Salaries and wages	\$ --	\$ 585,457	\$ 239,002	\$ 117,567	\$ 942,026	\$ 921,110
Employee benefits	5	157,532	69,315	26,994	253,846	295,006
Advertising and promotion	--	4,758	1,229	--	5,987	6,813
Provision for depreciation	--	1,939	--	--	1,939	3,136
Food costs	--	--	36,852	--	36,852	30,156
Insurance	--	7,779	4,376	--	12,155	13,731
Miscellaneous	50	11,026	--	--	11,076	11,765
Professional services	--	21,866	7,728	8,557	38,151	21,804
Rent	--	89,401	17,783	--	107,184	100,428
Repairs and maintenance	--	18,444	7,476	--	25,920	32,436
Supplies and other expense	1,452	51,875	14,047	8,806	76,180	89,914
Telephone	--	17,044	3,709	--	20,753	21,597
Training costs	--	5,516	2,661	2,011	10,188	8,492
Travel	--	21,995	2,657	13,707	38,359	38,082
Utilities	--	5,546	--	--	5,546	6,097
	<u>\$ 1,507</u>	<u>\$1,000,178</u>	<u>\$ 406,835</u>	<u>\$ 177,642</u>	<u>\$1,586,162</u>	<u>\$1,600,567</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Zion Recovery Services, Inc., as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Zion Recovery Services, Inc.'s basic financial statements and have issued our report thereon dated August 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Zion Recovery Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Zion Recovery Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Zion Recovery Services, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Directors
Zion Recovery Services, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Zion Recovery Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Response to Findings

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Zion Recovery Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gmewoll, Beu, Kyhn & W. P. C.

Atlantic, Iowa
August 31, 2015

ZION RECOVERY SERVICES, INC.

Schedule of Findings and Responses

Year ended June 30, 2015

PART I: REPORTABLE CONDITIONS

15-I-A Segregation of Duties: One person has the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency. However, this is not uncommon for businesses of this size.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *